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POST OFFICES, PENSIONS AND COMPUTERS: NEW OPPORTUNITIES FOR COMBINING GROWTH AND SOCIAL PROTECTION IN WEAKLY INTEGRATED RURAL AREAS?

John Farrington, N.C. Saxena, Tamsyn Barton and Radhika Nayak

India's efforts in targeting a wide range of social protection measures towards different categories of poor people at first glance appear to be a model for other countries as they prepare their own Poverty Reduction Strategies. However, implementation constraints – especially in areas weakly integrated into economic institutions and infrastructure – are severe. After reviewing briefly the complexities of targeting and delivery in India, the paper examines why there is an apparently inexorable trend towards an increasing number (of increasingly complex) government schemes for transferring resources to the poor, how they are affected differently by misappropriation, and how and why implementation constraints are particularly severe in weakly integrated areas. This paper argues that over-elaborate targeting militates against local transparency and gives local officials too much discretion, and so is part of the problem. It suggests that cash transfers paid through certain channels (e.g. the Post Office) for specific purposes such as pensions and allowances are less corruptible than many 'in kind' transfers. They may help in reducing under-nutrition and stimulating the local food economy by reducing 'demand deficits' and merit greatly increased funding. Stressing simplicity of targeting and automaticity of delivery, the paper suggests it may be better to identify delivery systems that work, and then, with certain safeguards, design schemes around them, than design schemes incorporating the latest concepts of poverty reduction and targeting, which then prove problematic in delivery. This discussion has to be located within the prospects for enhanced automaticity of transfers now offered by computerisation.

Policy conclusions

- There has been some success in merging Centrally Sponsored Schemes, projects and programmes in India (henceforth, CSS) to bring their number down from 360 to around 180, but upward pressure persists, as politicians shun the adverse publicity associated with scheme closure, but covet the acclaim of opening new ones.
- CSS are sophisticated in the ways they are designed and targeted, but they suffer serious misappropriation of funds, and many deliver under 50% of allocated resources to intended beneficiaries.
- Public acquisition of food through the Food Corporation of India (FCI), and its subsidised distribution through the Public Distribution System (PDS), is inefficient and leakage-prone, each rupee-worth of food received by intended beneficiaries costing a further one to two rupees to acquire, store and deliver, depending on levels of leakage.
- Rights-based approaches, which aim to improve poor people's access to their entitlements, have had some positive impact, where there has been critical mass.
- The volume and composition of social protection measures requires careful planning, to ensure that the rights of citizens (e.g. to food) – especially of those who cannot engage fully in economic activity – are met, but without 'crowding out' the contribution to wellbeing that economic growth can make, nor displacing traditional social protection mechanisms.
- There are powerful arguments for shifting attention from design to implementation mechanisms. Recurrent features of relatively successful schemes are: small, regular payments (which attract less misappropriation than large, one-off payments), high levels of automaticity (with correspondingly reduced discretion among local officials), and strong awareness among intended beneficiaries of their rights (which argues strongly for simplicity of design).
- National Old Age Pensions transferred through the Post Office or bank accounts exhibit many of these characteristics, and there is scope for switching roughly one-fifth of all resources spent on other CSS and the PDS into this and related pensions/allowances. Direct transfers of this kind would place an additional US$2bn directly into the hands of disadvantaged groups, equivalent to an additional demand for some 8m tonnes of foodgrain from local farmers, many of whom are weakly integrated into wider markets.
- The expansion of direct transfers of this kind would benefit from a streamlining and computerisation of the current complexity of identity cards issued for 'ration' purposes.
- Direct transfers through a central agency, such as the Post Office or certain banks, is particularly beneficial for the weaker States, where fiscal crisis and weak infrastructure prevent them from drawing down additional allocations of food from the FCI.
- The Indian evidence suggests that other countries considering new social protection arrangements should (a) distinguish carefully between those able and unable to engage directly in productive activity, but keep categories of beneficiaries easily identifiable; (b) use some combination of targeting criteria such as age and location, or use self-targeting mechanisms such as wage-rates, noting that income/expenditure criteria are problematic; (c) limit the number of schemes so that they can be monitored properly; (d) ensure that social protection is geared towards the types of vulnerability (old age, disability, acute risk) which market-led growth is unlikely to address, so that social protection *complements* growth; (e) identify robust implementation channels incorporating high degrees of automaticity and transparency and ensure that schemes are designed in ways compatible with these; and (f) seek to exploit complementarities between social protection and local productive activity (e.g. in agriculture).

Scope of the paper

Definitions of social protection (SP) vary, but most focus on efforts to reduce the effect of chronic conditions (e.g. old age) or acute risk (e.g. drought or economic shocks) on vulnerable groups. SP can be through people's own efforts, such as individual or collective savings, or social action, or be undertaken by government. This paper focuses mainly on the latter, i.e. on public policies and actions immediately protecting and promoting livelihoods (such as employment schemes, old age pensions, disability allowances, nutrition programmes). Investments in human capital through basic services such as health and education lie outside the scope of the paper. Nor is the paper concerned with efforts to extend to the informal sector the types of social protection normally associated with formal sector employment (such as health insurance or contributory pension schemes). These

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are all major topics in their own right and merit more detailed treatment than can be given here.

The paper does not enter the wider discussion of whether SP is the best investment for poverty reduction, as against investment in productive infrastructure.[1] The related question of whether social protection 'crowds out' the benefits from growth is discussed briefly in Box 1.

The poverty context

Poverty in India is officially measured in terms of the expenditure necessary to achieve specified levels of calorie consumption, namely 2400 calories/day in rural areas and 2100/day in urban. Official statistics suggest that 26.1% of the population in 1999/2000 fell below this poverty line, but more realistic estimates put this at around 30% (see Saxena and Farrington, 2003). Even so, this represents a substantial reduction from 56.4% in 1973–4 and 36.2% in 1993–4. Around 70% of the poor live in rural areas, and 70% of these are primarily dependent on agriculture. The largest single category of the poor are those depending mainly on agricultural labour (approx. 40%), with limited capacity to produce their own food. Scheduled castes and tribes are disproportionately represented among the poor. Malnutrition is widespread, with 207 million people in 1996–8 unable to access enough food to meet basic nutritional needs, and over 50% of children below five years underweight, with girls suffering particularly badly.

Poverty reduction schemes

The Government of India currently commits some US$5.5bn to a number of poverty-reduction schemes, projects and programmes. These 'Centrally Sponsored Schemes' (CSS) are centrally designed, but implemented by the States, with the States generally contributing 25% to their cost. The four broad types of these falling under the Rural Development Department, with a total budget of around US$3bn, are outlined in Box 2. It is important to note that some do not explicitly contain a poverty criterion, but even those targeting, for instance, degraded watershed rehabilitation, will inevitably focus on areas containing large numbers of poor people. In addition, the government addresses poverty through a Public Distribution System (PDS). This has over 450,000 'fair price shops' nationwide, intended to serve some 160m families with subsidised food. Together with a storage and acquisition system (based on minimum support prices for select commodities to – in effect – a select group of farmers), this costs a total of around US $5.0bn. Together, CSS and PDS amount to almost 2% of GDP, and some 20% of central government tax revenue.

The newly-released Tenth Five Year Plan suggests that leakage in numerous CSS lies between 20% and 70%. The generic difficulties facing centrally sponsored schemes (CSS) are grouped under 5 heads in Box 3.

Misappropriation of the resources channelled through CSS takes two broad forms: *politically motivated misappropriation* generally involves the allocation of scheme resources as a reward to existing supporters and/or as an attraction to new ones. More orthodox *rent-seeking* takes many forms, including demands by officials for 'special payments' to provide signatures (or even application forms), the inclusion of non-eligible persons (e.g. those above the poverty line) against payment, and arrangements with contractors to distort scheme provisions (e.g. using machinery instead of labour) and then share the 'surplus'.

The evidence (e.g. Nayak et al., 2002) suggests that both types of corruption vary in scope and intensity among different types of scheme according to the following characteristics:

i) Schemes having a large component of individual subsidy, or large individual transfers, attract the attention of politicians and officials bent on diverting funds away from their purposes and their intended beneficiary group.
ii) By contrast, small, regular payments (such as pensions) are generally seen as less worth the trouble of embezzling or diverting, and schemes offering these are generally robust in implementation, especially where they are routed through relatively non-corrupt channels such as the Post Office. With these, the main difficulty is to ensure that officials responsible for registration do not exclude a high proportion of those eligible, or include those ineligible.
iii) Involvement of the private commercial sector in any aspect of implementation requires very close monitoring – the evidence suggests highly imperfect markets, with widespread collusion between middlemen and local officials in falsifying invoices and in a range of other malpractices.
iv) The creation of sufficient local 'ownership' of capital assets to ensure adequate maintenance is exceptionally difficult for technical departments in the public sector to achieve (as for instance in the case of water pump maintenance). Whilst recent public sector approaches (e.g. in microwatershed development) have attempted to break old top-down moulds, much remains to be done to root out embedded rent-seeking.

Other difficulties are more specific to certain types of scheme. For instance:

- In relation to *self-employment* schemes, despite recent new approaches (as in micro-watersheds) to incorporate local perspectives, schemes remain supply-led with rent-seeking militating against local ownership of the assets created. Further, programmes for upgrading skills have only recently been incorporated with the launch of SGSY

Box 1 'Crowding out' and related arguments

Some economists fear that poverty alleviation resulting from social protection may be unsustainable because it depends on a continued flow of resources from the state, by contrast with poverty reduction driven by the benefits of enhanced production. However, where a national constitution has social objectives such as minimum entitlements for all, it is important to make provisions for vulnerable groups (the elderly, the sick, children, women with many dependents) who will have little labour to sell in the market economy, and will traditionally have had to rely largely on indirect benefits, including gifts from friends and relatives. Where such informal sharing mechanisms work well, it is important that 'modern' social protection should not disrupt them. However, there is evidence that in many developing countries these informal mechanisms are becoming less and less reliable, especially for those with limited social networks.

Box 2 Broad types of Centrally Sponsored Scheme (CSS) within the Rural Development Department

These include:

- those aiming simply to transfer resources to the poorest (including the National Old Age Pension Scheme (NOAPS), the National Housing Scheme, and many schemes having a food distribution component);
- those aiming to build the assets of the poor, (including the Accelerated Rural Water Supply Programme (ARWSP) and the Drought Prone Areas Programme (DPAP));
- those having employment creation for the poor as a major objective (including the Complete Wage Employment Scheme (SGRY), and the Employment Assurance Scheme (EAS)), and;
- those aiming to enhance self-employment possibilities (including the Integrated Rural Development Programme (IRDP – now SGSY) and the National Credit Fund for Women).

Source: Nayak et al (2002).

as successor to IRDP. Delivery of credit by the banks remains indifferent, with overcrowding of lending in certain enterprises such as dairy, and the capacity of government and banks to implement the IRDP being outstripped by the increase in its scale. A fundamental design flaw is that the *subsidised* acquisition of assets attracts those with little entrepreneurial flair or experience – good entrepreneurs are more concerned with the availability of credit when they need it than with its cost.

- Evaluation of the programmes for *wage employment* also reveal serious weaknesses. Central norms for overall allocation, such as 40% of funds for watershed development and 20% for minor irrigation, have not been followed. Records are systematically distorted to show higher than actual employment, such that only Rs10 to Rs15 of every Rs100 in wage schemes actually goes to labourers, against the Rs60 intended. The rest is illegal income for bureaucrats, contractors and politicians.
- Leakage has been reduced where the poor have been made aware of their rights and have been able to access information for monitoring scheme performance. There are growing pressures in this direction, but to respect rights over a long period requires sustained effort (Box 4). A further general problem of employment schemes is that the requirement to enhance community infrastructure through the labour-days created, though laudable, concentrates efforts on a very limited range of activities, such as earthworks or bush-clearing, or the rehabilitation or maintenance of roads, where capital or heavy equipment requirements are substantial, the complexity of matching capital inputs with the provisions of employment schemes means that the effort is rarely made.
- Schemes involving *food provision*, in the form of school midday meal provision, have had some positive effect on school attendance, especially among girls. But they require resources (personnel, kitchens, materials) to cook the food. The Public Distribution System (PDS) overall has generated some benefit, especially in States where it has been reasonably well-administered. But, in general, food transfers are expensive – distribution of Rs100-worth of food costing a further Rs100–Rs200, depending on levels of corruption. Much food is illicitly sold off before it reaches intended beneficiaries, and collusion between traders and officials has recently allowed a 'recycling' of much food back into the guaranteed purchase system, a process facilitated by inappropriate pricing structures (Deshingkar and Johnson, forthcoming). The acquisition of grain from the Food Corporation of India stores is the responsibility of State governments. The poorer States (containing the majority of rural poor) typically 'lift' under 50% of their existing entitlements, and have been unable to take advantage of higher recent allocations – a situation which will be exacerbated as fiscal crisis spreads and deepens across the States. The interface between fair price shops and rural people is weak: information on the arrival of PDS supplies generally reaches people only on the same day, and until recently, they had to purchase a full month's supply at a time, a requirement which the majority of poor people had no prospect of meeting. The PDS is also widely perceived to be biased towards urban areas where storage and delivery infrastructure are better (Saxena, 2002).

Box 3 Generic difficulties reported across Centrally Sponsored Schemes

- *Design*: centralised designs produce schemes which are not well adapted to many local conditions, and for the States to adapt them would involve considerable effort in local re-design. In many cases, beneficiaries are identified by reference to a 'poverty line'. This is open to subjective interpretation, and there is deliberate and widespread error of inclusion and exclusion.
- *Implementation*: is generally by the States, who are (financially) minority stakeholders. Implementation is poorly monitored, difficult for the centre to influence, and subject to a wide range of politically motivated misappropriation and/or rent-seeking. Centre/State sensitivities inhibit close investigation by the centre of misappropriation
- *Funding*: disbursement from the centre to States is often late in the financial year; where it is not, the States, driven in part by impending fiscal crisis, tend to use CSS funds to cover immediate general costs (such as public sector salaries) and then only (if at all) release the funds for the intended purpose very late in the year.
- *Monitoring*: further tranches are released on certification that earlier funds have been used for the intended purpose, not on some measure of their effectiveness. There are vested interests throughout the public sector hierarchy to ensure that no negative reports on the performance of schemes are made.
- *Governance*: the fact that there are so many CSS makes it difficult for the lowest-level officials, let alone intended beneficiaries, to know what the provisions of all of them are, and this threatens standards of governance

Sources: Various, including Report of the Comptroller and Auditor General, Government of India (1999) and GoI (2002).

Trimming down the CSS and PDS

One important general interpretation of the above evidence is that, contrary to widely-held views, transfers in kind are no less prone to corruption than cash transfers. Another is that transfers in kind (i.e. as food) cost more to administer than the value of the product transferred. Against a background of deteriorating public finance at State and Central levels, there are growing concerns among some senior officials to reduce the volume of resources allocated to the CSS and PDS. However, both are popular among politicians, and the assumption here is that any reform will, at best, be gradual. Rapid change is also inhibited by the sensitivities of centre-State relations. Box 5 illustrates the complexities of trying to change policy in relation to one CSS.

However, if the government is serious about tackling poverty effectively, then it needs a new medium-term vision to guide reform. The need for this has already been aired thoroughly for the PDS (GoI, 2001) and is not re-examined here. Instead the focus is on the types of criteria by which CSS might be reformed:

a) Substantial reduction in central allocations is called for where public involvement is inappropriate, as in many *self-employment* schemes: governments have little capacity to identify economic opportunities, and the

Box 4 Sustaining rights to entitlements

The Maharashtra Employment Guarantee Scheme (MEGS) is perhaps the most-quoted effort to guarantee the rights of labourers to a certain number of days of work per year. However, the Maharashtra scheme arose from specific political conditions where the governing party was committed to rural poverty reduction, and the tax base from major cities in the State (Mumbai and Pune, among others) was sufficient to support this vision. Reduced budgets for the scheme from 1980 led to reduced participation, and the hike in 'guaranteed' wage rate to exceed the market rate in 1988 led to an increase in participants above the poverty line (to 72% of the total). The scheme has in any case been difficult to administer, with multiple application forms and complicated wage determination formulae, offering scope for local officials to defraud less literate workers. It is doubtful, therefore, whether MEGS provides a general model, though it does offer useful principles.

provisions made are generally too formulaic to cater for local conditions, too undiscerning over eligibility – so that many with inadequate capacity or inclination for entrepreneurship are included – and highly prone to collusion between local officials and 'approved' traders. Here, government could usefully facilitate and regulate the private sector better, rather than try to take on its role.

b) Streamlining and stronger client-orientation are required where there is some evidence that schemes benefit the poor. This applies to *employment-generation* schemes, especially in areas prone to climatic uncertainty, but with improvements in the release of funds, locally appropriate setting and payment of wages (and appropriate comparability between wages for men and women), and better identification of the works to be undertaken. The timing of food provision for employment generation is crucial and merits closer attention: if mis-timed, it can adversely affect local markets and/or arrive when no longer needed by the poor. Improved monitoring is also essential, if possible with the involvement of rights-based or community based organisations, in the MKSS mould (Box 6).

c) Much the same applies to *environmental regeneration* schemes, with particular attention to improved institutional arrangements for e.g. watershed rehabilitation and for ensuring transparency to local people.

d) A substantial increase in central funds for *resource transfer* schemes, especially to the various components of the National Social Assistance Scheme, but with a reduction in the share allocated to schemes involving lump-sum payment (such as the National Housing Scheme), which are socially divisive, since only very few are eligible in any one locality, and are highly prone to political misdirection and other rent-seeking.

A working model: Post Offices, pensions and computers

As the basis for a new medium-term vision on social protection, this paper suggests building on a model which has already worked well in a number of States. This is the National Age Pension scheme (NOAPS). Some US$100 m/yr is currently allocated to this by central government on the basis of two assumptions: first, that 50% of those above the age of 65 and below the poverty line are looked after by their relatives and so do not require a pension, an assumption which is unlikely to be valid, certainly in the more difficult rural areas, and second, that the States will supplement the Rs75 (US $1.60)/person/month provided by central government. In fact, the nominal State supplementation varies between Rs25 and Rs125 (US $0.54–2.70)/person/month, and in practice, fiscal crisis in the States means that its payment is not guaranteed.

The essence of the argument is that:

- Those unable to engage fully in the productive economy (i.e. those who cannot sell much labour because of old age, sickness or responsibilities of care for dependant) are relatively neglected categories since almost all of the US $5.5bn/yr for poverty focused and rural development CSS goes into economic activities.
- Where these categories are earmarked for the same benefits as other categories of the poor (as, for instance, in the PDS), the predominant delivery mechanisms, based on transfers of food, are very costly.
- Although firm data are not readily at hand, casual observation suggests that these categories are disproportionately represented among the poor.

Certainly, in parts of Orissa where pensions were doubled for a period, anecdotal evidence suggests both a reduced rate of hunger-related deaths, and less abandoning of the elderly. This suggests that increased pension payments would raise the status of the elderly, increase the consumption of food by the undernourished (possibly with positive spinoff to extended family) and, since their propensity to spend on food is likely to be high, strengthen demand in local food markets.

To summarise, the factors contributing to the success of cash transfer schemes such as pensions include the fact that:

- Pensions are paid in monthly amounts, which are generally too small to attract rent-seeking or politically motivated misappropriation.
- The NOAPS provides for payment either via the Post Office or bank account on a monthly basis, or via local government officials, the latter being more prone to distortion for political and personal gain. It may therefore be appropriate to restrict payment to Post Office or bank channels only, or through locally appropriate mechanisms such as women's groups in Andhra Pradesh. The enhanced provision of financial services figures strongly in a recent World Bank review of options for modernising the Indian Post Office (Box 7). Certainly, the scope for discretion by local officials resulting in long waiting periods for registration, bribes and inappropriate inclusion or exclusion is substantial, and needs to be reduced. Once those eligible have been registered, there is a high degree of automaticity and transparency in payments.
- A continued role for the centre in defining and controlling

Box 5 The complexities of policy change: the case of India's National Old Age Pension Scheme (NOAPS)

The NOAPS formed part of the National Social Assistance Scheme announced in 1995/6 and was a CSS under the Ministry of Rural Development (MoRD). Requests by the then Secretary of Rural Development to increase funding for pensions were rejected by the Planning Commission, but, following a request to the Prime Minister's Office to increase pensions for hunger-prone districts, they were doubled for three districts in Orissa only, where field officers reported a reduction in abandoning of old persons and in hunger-related death. The then Secretary of Rural Development moved to become Secretary to the Planning Commission, and requested MoRD to submit a proposal for increased funding for NOAPS. However, MoRD promptly transferred the scheme entirely to the States, and, fearing for the scheme's survival, the Planning Commission made it an 'earmarked' scheme with effect from 2002/3, and will make the funds available (largely on loan instead of grant) via the State Finance Departments instead of direct to the districts. This will undoubtedly lead to delayed payment, and possibly to diversion of funds to other uses. It will require a high-level initiative to bring the NOAPS back to central control and automate it in the ways suggested in this paper.

Box 6 Mazdoor Kishan Shakti Sangathan (the Organisation of Labourer and Peasant Power – MKSS)

Established by a former IAS officer, Aruna Roy, MKSS began to organise 'public hearings' in 1991 with the aim of exposing 'ghost projects' – i.e. projects which for which government funds had been claimed but which did not exist on the ground. Village people themselves are the core membership of MKSS, and its basic philosophy is that corruption will not be curbed unless records of expenditure are publicly made available. A series of public hearings in Janawad, Rajasthan, led to the arrest of local officials on corruption charges – an almost unprecedented event since the usual punishment for publicly exposed corruption is transfer to a less remunerative post. Pressure from this and similar cases on the Chief Minister of Rajasthan eventually led to the passing of a Right to Information Act implementation mechanisms (the Post Office is mandated to central government, not to the States) could help to redress some of the tendency for poverty to remain high in the weaker States.

- Pensions can be targeted to particularly vulnerable sub-sets of the population. In drought-prone rural areas, practically all those of 65 years or more are below the poverty line and especially vulnerable, so that within officially recognised drought-prone districts, all might be included in the scheme. This would greatly add to simplicity and transparency, since the only criterion for eligibility would be age. Similarly, mother and child allowances (such as in the Integrated Child Development Services Programme) might become automatic via the Post Office in much the same way, although the risks of non-poor capture may be greater in this case.

There are strong arguments to suggest that these favourable characteristics of pensions funds can be exploited by a substantial increase in funding with little danger of creating wastage. As a first step, the allocation could be doubled by extending the scheme to all (not just 50%) below the poverty line. Further, the individual pension allocation is extremely low, and inadequate to provide even the barest subsistence. To increase it fourfold for all over 65s below the poverty line would require some US $800m/yr in total. If the age limit were lowered to 60, this would increase the number below the poverty line and eligible for pensions by around 66%. If widows were systematically given a pension (there is currently wide variation in this from State to State), and single-parent families were given an allowance, the budget requirement would rise to around US $2.0bn. An expansion of mother and child allowances might permit the useful allocation of a further US $0.5–US $1.0bn to direct transfers.

Computerisation can do much to strengthen the automaticity of transfer processes. Many district-level development offices are now equipped with computers, and in some of the more progressive States, these have broad-band access to State government databases. If the central government looks ten years ahead, to pursue the following objectives in the Indian context would be both equitable and feasible:

- Link the payment of pensions and allowances to computerised records of births, deaths and marriages;
- Ensure that the personal discretion of local level officials or politicians over beneficiary selection is kept to a minimum;
- Provide all adults with a printout of their personal identification details as held on the computer;
- ensure that the various rights enshrined in these records to claim benefits, to vote etc. are 'portable' – i.e. can be used by migrants wherever they are;
- consider the range of information to be stored in the light of civil liberty issues (cf. the debate in Thailand over whether data on HIV status should be gathered and stored);
- cnsure that records are periodically updated (ideally, through updates sent via broadband; as an interim measure, by mailing out CD-ROMs);
- put in place safeguards on access to data, manipulation of data, virus protection and so on.

Box 7 The Reform of India Post

A recent report prepared by the World Bank noted that 137,000 of India Post's 154,000 branches are in rural areas, and that it administers 114 million savings accounts. The study noted the trustworthiness of the Post Office and recommended a new legal framework to ensure commercial flexibility. It also envisaged the expansion of electronic connectedness, and of the range of financial services provided, as well as expansion into e-commerce and e-government.
Source: World Bank (2002).

The arguments to keep such a computerised system under central government control, and to make its implementation a central responsibility, are overwhelming, not least since the less progressive States are the ones with greatest poverty, are the ones where such change away from the rent-seeking embedded in local discretion is most urgently needed, and yet would be the slowest to use their own resources for changes of this kind. Such a system will not be entirely 'watertight' – there will remain problems of élite capture and leakage – but careful piloting, and some experimentation with the 'watchdog' roles that civil society organisations can play, will create mechanisms that deliver a far higher portion of intended benefits to the poor than do present ones.

Addressing demand deficiencies in weakly-integrated rural areas

Economists generally interpret the amount that people spend as an expression of demand for particular goods or services. However, people having very low incomes may not be able to afford – either seasonally or chronically – even such basic necessities as sufficient food. The evidence on under-nutrition presented early in this paper points to such demand deficiencies.

The most pervasive approach to this problem in India has been to enhance *supply*. This has been pursued through a range of production-orientated policies, including publicly-funded irrigation and agricultural extension services, and guaranteed purchase schemes. But a number of social protection programmes have also sought to enhance the supply of food. The CSS, for instance, have included the provision of food – i.e. as 'food for work'– as part of employment generation schemes (though some cash wages are also paid). This is aside from PDS interventions, which are also entirely supply-focused.[2]

Clearly, acute food crisis following e.g. drought or flooding will require emergency supplies to be brought in from outside, but in the majority of cases, the most appropriate course will be to enhance local purchasing power in local markets. This will act as an incentive to, rather than reduce, local farm production (as badly-timed food transfers might), with positive employment and income multipliers. Available data suggest that to switch some US $2.0bn into cash transfers would generate an increased demand for 8m tonnes of foodgrain. This US $2.0bn, although a substantial sum, is a small part of the aggregate US $10.5bn currently allocated to the acquisition of food at minimum support prices, its storage and distribution through the PDS, and to CSS. It could be saved by some paring down of the currently excessive aquisition/storage/distribution system, and by some reduction in the less efficent CSS. The 8m tonnes of foodgrain are estimated in aggregate to be adequate to close the 'food gap' (Farrington and Saxena, 2003), but whether demand stimuli of the kind described here would meet locally differentiated food deficits would require careful monitoring and course-corrections, possibly on both demand and supply sides.

Relevance of the India findings to other contexts

Inevitably, ways of addressing poverty have to be tailored to specific contexts, so that the scope for generalisation is limited. However, a few general lessons suggest themselves:

i) food security problems – and many of the wider problems of poverty – tend to be addressed predominantly by increasing the *supply* of goods and services. Where the focus is on enhancing local food production, those unable to engage fully in the productive economy will not benefit much unless food prices fall substantially. Where it is on food re-distribution, they may benefit, but this is a high-cost solution, and poorly-timed redistribution can impact negatively on the local agricultural economy.

ii) The argument that cash payments are more prone to corrupt administration than payments in kind (e.g. as food) needs to be revisited: the latter have been widely misappropriated, and there are at least some circumstances in which cash payments can be targeted and delivered efficiently.

iii) There are a number of general lessons about the identification of target groups: for *acute* problems (such as drought) perhaps the most robust criterion is a geographical one, combined where possible with rapid assessments to generate more focused targeting, so as to provide food aid as equitably as possible to those who need it. For *chronic* poverty, to use some 'poverty line' as a criterion poses serious difficulty – it is difficult to identify who is above or below the line, individuals in any case drift above and below, and official lists (even if they were accurate) of those above and below are generally out of date. The upshot of all this is that there is wide scope for discretionary decisions by local officials, facilitating corruption and the wide-scale exclusion of the eligible and inclusion of the ineligible. Other criteria such as age, caste or marital status (in the case of pensions) might be more robust, though repeated updating will be needed – ideally, in conjunction with improved registration of births, deaths and marriages. Ideally, criteria of these kinds would best be incorporated into a computerised system of personal identity cards. Whilst technically feasible, and offering great scope to reduce rent-seeking by local officials, to introduce and maintain such a system in India would be a gargantuan task.

iv) With an income-elasticity of demand for food of typically around 0.75, to allocate some 0.5% of GDP (i.e. US $2.0–2.5bn/yr) to cash transfers to the poor in India will, apart from reducing their specific poverty, boost demand for foodgrains by something approaching 5% (i.e. around 8–10 m tonnes/yr). Whilst these figures are approximate, they do provide some general indication of the kinds of increase in location-specific agricultural demand achievable in other countries where a majority of the poor are located in weakly-integrated rural areas. Of course, there must be some capacity for agriculture to increase supply in response, if such additional demand is not to be merely inflationary, and improved technology will have an important role here. But it will be one of several components of strengthening local markets not, as so often in the past, presumed simply to be "the answer" to poverty and hunger.

[1] For instance, against some US $10.5bn spent annually on SP as defined here, central government provision for investments in irrigation is under US $0.5bn, and in afforestation under US $0.1bn.

[2] It is important to note that redistributive schemes of these kinds involve the purchase of food in well-integrated areas, and their redistribution in (usually) weakly-integrated areas.

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John Farrington is a Research Fellow at ODI (j.farrington@odi.org.uk). N.C. Saxena, formerly Secretary of the Indian Planning Commission, is now independent (ncsaxena@vsnl.net). Tamsyn Barton is a Social Development Adviser at DFID (t-barton@dfid.gov.uk) and Radhika Nayak, formerly an ODI Research Associate, is now with the World Bank in New Delhi (rnayak1@worldbank.org).

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